



# County of Los Angeles CHIEF EXECUTIVE OFFICE

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August 29, 2014

TO: Supervisor Don Knabe, Chairman  
Supervisor Gloria Molina  
Supervisor Mark Ridley-Thomas  
Supervisor Zev Yaroslavsky  
Supervisor Michael D. Antonovich

FROM: William T Fujioka  
Chief Executive Officer

Mark J. Saladino  
Treasurer and Tax Collector

## LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION PRELIMINARY RETURNS FOR FISCAL YEAR 2013-14

We are very pleased to report the Los Angeles County Employees Retirement Association (LACERA) has experienced excellent investment returns for the fiscal year ended June 30, 2014. Based on preliminary return data, LACERA's actuary estimates that the pension plan's funded ratio will increase from 75% to 78%, while the County's contribution rate will decline from 21% to 20% of covered payroll for the coming fiscal year beginning July 1, 2015. Based on the 2013-14 covered payroll, each 1% savings in retirement contributions represents approximately \$60 million in budgetary savings.

Furthermore, if LACERA is able to achieve the actuarially assumed rate of return of 7.5% over the next five years, and if salaries increase by the assumed rate of 3.5% per year over the same period, and demographic experience is stable, the actuary projects that the County's contribution rate will fall to approximately 17% of payroll in 2019.

The actuary's report is attached for more detail. Please contact either of us directly if you have further questions.

WTF:MJS

Attachment

c: Executive Officer, Board of Supervisors

*"To Enrich Lives Through Effective And Caring Service"*

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August 19, 2014

Mr. Gregg Rademacher  
Chief Executive Officer  
Los Angeles County Employees Retirement Association  
300 North Lake Avenue, Suite 820  
Pasadena, CA 91101-4199

Re: Preliminary Funding Estimate as of June 30, 2014 and Projection of Employer Contribution Rate

Funding Measurement	Estimated June 30, 2014	Actual June 30, 2013
<b>Contribution Rate*</b>		
Employer Normal Cost Rate	9.44%	9.44%
UAAL Amortization Rate	<u>10.50%</u>	<u>11.90%</u>
Total Employer Contribution Rate	19.94%	21.34%
<b>Funded Ratio</b>	<b>78.4%</b>	<b>75.0%</b>

\* The contribution rate that is calculated in the June 30, 2014 valuation is effective for the fiscal year beginning July 1, 2015.

Dear Gregg:

Per your request, we are providing an estimate of the future financial impact of previous investment gain and losses and recent investment experience, including the estimated asset return for the year ending June 30, 2014.

Our analysis includes an estimate of LACERA's funding status and contribution rates as of June 30, 2014, as shown in the table above, based on the estimated market value of assets as of June 30, 2014 and the estimated June 30, 2014 liabilities. Additionally, we have updated the projected total employer contribution rate (in aggregate and on a plan-specific basis) for fiscal year beginning (FYB) 2015 through FYB 2019. The results of these projections are shown as exhibits at the end of this letter.

The purpose of these projections is to provide an estimate of the expected future changes in the employer contribution rate. The actual contribution rates calculated in the future will vary significantly due to a number of factors, in particular, investment returns and changes in assumptions.

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For the purposes of this analysis, we have assumed that the market value of assets as of June 30, 2014 is \$47,289.5 million, based on LACERA's preliminary estimate. The time-weighted rate of return for the period, as reported to us by LACERA, was 16.8% (gross of investment expenses). Thus, the return for the year exceeds the expected return for the last year of 7.50%, resulting in an actuarial gain on assets for the year ending 2014.

This estimated asset gain is combined with the asset gains and losses from prior years and reflected in the expected future contributions. Note that, as of the 2014 valuation, the only asset loss still being partially deferred in the actuarial assets is for the year ending 2012; all other years result in partially deferred asset gains. This causes the 5-year projected employer contribution rate to fluctuate slightly (rather than smoothly decreasing or increasing), as the various deferred gains and losses are recognized in future years.

For purposes of this projection, LACERA is assumed to earn a net 7.50% return each year after June 30, 2014, with payroll increases of 3.50% per year.

## **Results**

Exhibit 1 shows the projection results in aggregate. Exhibit 2 shows the projection results for each of LACERA's nine plans. The aggregate projections assume the impact of the emergence of General Plan G and Safety Plan C (the PEPRA plans effective January 1, 2013) do not have a material impact on the aggregate projected total employer contribution rate over the 5-year projection period.

## **Treatment of STAR Reserves and Non-Valuation Reserves**

LACERA's funding policy is to include the STAR reserve in the valuation assets with no offsetting liability for actuarial valuation purposes. We have shown the projections including the STAR reserves in the valuation assets each year in the future in accordance with this policy.

For purposes of these projections, we have assumed no change in the County Contribution Credit Reserve (a non-valuation reserve) from the June 30, 2013 amount of \$21.9 million.

## **Data, Assumptions, Methods and Certification**

These funding and projected contribution estimates are based on the estimated June 30, 2014 market value of assets as provided to us by LACERA staff. All liabilities are projected to June 30, 2014, based on the data, methods and assumptions used in the June 30, 2013 actuarial valuation. The Board of Investments has the final decision regarding the appropriateness of the assumptions and adopted them as indicated in Appendix A of the June 30, 2013 valuation report. Our analysis assumes there have been no significant events affecting the funded status of LACERA since the last valuation, except for investment returns.

When we complete the June 30, 2014 valuation, we will report the actual calculated employer contribution rate effective for the fiscal year beginning July 1, 2015. The actual results will likely differ from the results presented in this letter due to a number of factors. Any difference will also impact the projected total employer contribution rate in future years.

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All costs, liabilities, rates of interest, and other factors for LACERA have been determined on the basis of actuarial assumptions and methods which are individually reasonable (taking into account the experience of LACERA and reasonable expectations); and which, in combination, offer our best estimate of anticipated experience affecting LACERA. Further, in our opinion, each actuarial assumption used is reasonably related to the experience of the Plan and to reasonable expectations which, in combination, represent our best estimate of anticipated experience of LACERA.

These cost estimates are subject to the uncertainties of a regular actuarial valuation; the costs are inexact because they are based on assumptions that are themselves necessarily inexact, even though we consider them reasonable. Thus, the emerging costs will vary from those presented in this letter to the extent actual experience differs from that projected by the actuarial assumptions.

In preparing the valuation upon which this letter was based, we relied without audit, on information (some oral and some in writing) supplied by LACERA staff. This information includes, but is not limited to, statutory provisions, employee data and financial information. In our examination of these data, we have found them to be reasonably consistent and comparable with data used for other purposes. It should be noted that if any data or other information is materially inaccurate or incomplete, our calculations may need to be revised.

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- (b) LACERA may provide a copy of Milliman's work, in its entirety, to other governmental entities, as required by law.

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The consultants who worked on this assignment are pension actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

The signing actuaries are independent of the plan sponsor. We are not aware of any relationship that would impair the objectivity of our work.

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Mr. Gregg Rademacher  
August 19, 2014  
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On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this cost study letter is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices I am a member of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein.

If you have any questions, please let us know.

Sincerely,

A handwritten signature in black ink, appearing to read "Nick Collier".

Nick J. Collier, ASA, EA, MAAA  
Consulting Actuary

NJC/nlo

Enclosures

cc: Ms. Beulah Auten  
Mr. Ted Granger  
Mr. Mark Olleman  
Ms. Jennifer Senta

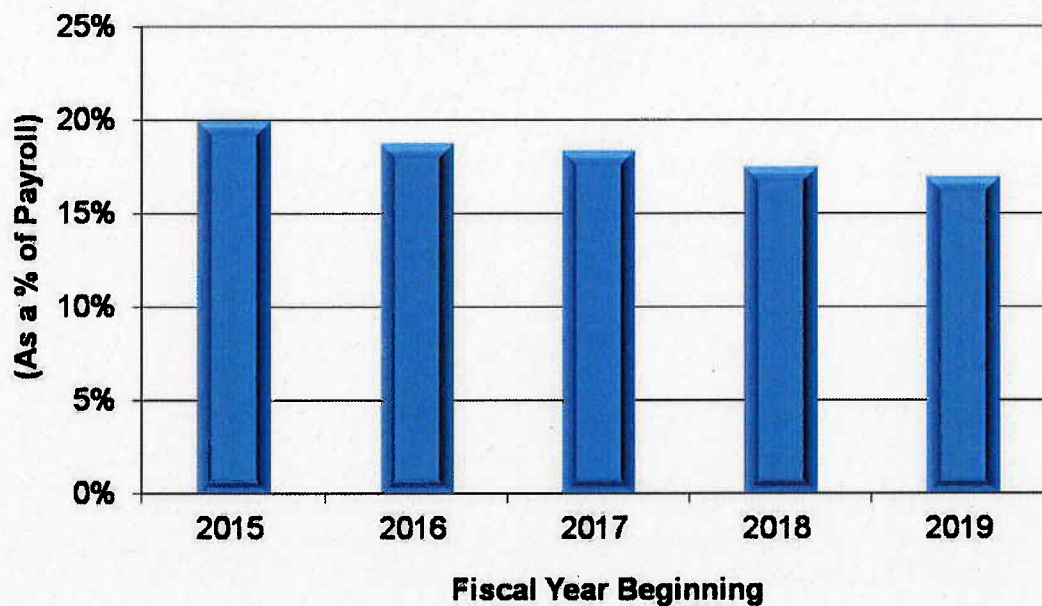
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**Los Angeles County Employees Retirement Association  
Projection of Total Employer Contribution Rate**

**Aggregate Results**

<b>Fiscal Year Starting 7/1</b>	<b>Assumes 7.5% Returns after June 30, 2014</b>
2015	19.94%
2016	18.74%
2017	18.35%
2018	17.47%
2019	16.94%

**Projected Total Employer Contribution Rate**



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**Los Angeles County Employees Retirement Association  
Projection of Total Employer Contribution Rate**

**Results by Plan**

7.5% Annual Returns Assumed												
Fiscal Year Starting 7/1	General							Safety				All Plans
	Plan A	Plan B	Plan C	Plan D	Plan E	Plan G	Total	Plan A	Plan B	Plan C	Total	
2015	25.11%	18.09%	17.61%	18.34%	19.55%	18.13%	18.74%	34.51%	24.89%	23.89%	24.91%	19.94%
2016	23.91%	16.89%	16.41%	17.14%	18.35%	16.93%	17.54%	33.31%	23.69%	22.69%	23.71%	18.74%
2017	23.52%	16.50%	16.02%	16.75%	17.96%	16.54%	17.15%	32.92%	23.30%	22.30%	23.32%	18.35%
2018	22.64%	15.62%	15.14%	15.87%	17.08%	15.66%	16.27%	32.04%	22.42%	21.42%	22.44%	17.47%
2019	22.11%	15.09%	14.61%	15.34%	16.55%	15.13%	15.74%	31.51%	21.89%	20.89%	21.91%	16.94%

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